Available online at www.sciencedirect.com

ScienceDirect

Procedia Economics and Finance 32 (2015) 1305 – 1313

Procedia Economics and Finance

www.elsevier.com/locate/procedia

Emerging Markets Queries in Finance and Business

Impact of financial crisis on monetary market in Romania

Marieta Stanciu[a,*], Dalia Simion[a], Tomiţă Vasile

[a]*University of Craiova, 13 A.I. Cuza Street Craiova, Dolj, 200585 Romania*

Abstract

The financial crisis that has affected most of the national economies in the last few years started in the United States in 2006. Over time, several precedents have been recorded, of which we mention the following: the financial crises prior to the collapse of the foreign currencies from the Eastern Asia from 1997; the financial crisis from Russia from 1998, when the huge competition deficit had a significant effect on the global economic market. The year 2009 made the banking system confront with a higher vulnerability, given the increase of the credit risk, and the Romanian business environment was negatively affected by: the contraction of the external retail market; difficulties in the external financing; the worsening of the risk perception, including by association with the regional evolutions; doubling the liquidity risk with the solvency risk at a micro-economic level. The year 2011 brings several changes in the economic and financial situation as follows: the balance of the non-governmental loan granted by the credit institutions increased in July 2011 with 1.1% in comparison with June 2011, up to the level of 216,010.7 million RON; the credit in RON increased with 1% while the credit in foreign currency increased with 1.1% (expressed in EUR, the credit in foreign currency increased with 1%); on 31 July 2011, the non-governmental credit recorded an increase of 4.5% compared to 31 July 2010, based on the increase with 1.8% of the RON component and with 6.2% of the foreign currency component expressed in RON (expressed in EUR, the credit in foreign currency increased with 6.3%);the governmental credit decreased in July 2011 with 4.6% up to 64,164.6 million RON. On 31 July 2011, it recorded an increase of 16.7% compared to 31 July 2010; the residents' deposits, non-governmental clients increased in July 2011 with 1.7% in comparison with June 2011, up to the level of 177,219.0 million RON. One of the main negative consequences of the financial crisis affected the cost and the external financial liquidity. Thus, the risk premiums for the CEE countries increased significantly, while the banks counted on the external resources. The financial crisis is causing suffering and shivers across the globe, forcing Governments to nationalize key parts of the banking sector, and the central banks to inject immense quantities of liquidity in the financial markets [\", not Marx, Keynes is back ', European Voice, 21 oct 2008].The causes of the current financial crisis should lead to many to remember that we need genuine markets, transparency and the smooth functioning of markets based on an adequate system of regulation and supervision, a correct evaluation of the factors of production and services

* Corresponding author. Tel.: +40-251-411-317.
E-mail address: stanciumarietta@yahoo.com.

Selection and peer-review under responsibility of Asociatia Grupul Roman de Cercetari in Finante Corporatiste
doi:10.1016/S2212-5671(15)01507-5

Selection and peer-review under responsibility of Asociatia Grupul Roman de Cercetari in Finante Corporatiste

Keywords: financial crisis; transparency; regulated market.

1. Introduction

The current financial crisis is a failure of markets too little or not at all covered by demonstrating once again that financial market cannot regulate itself. Financial markets have become increasingly opaque, and the dimensions of the banking sector \"out of the shadows\" (shadow banking sector), very little or not at all covered, have skyrocketed From finance folle [ne doit pas nous gouverner \". Le Monde, 22 May 2008]. Banks have been involved in a game of complex financial products, and sales of questionable loans that would back mortgages with high risk. Inappropriate compensation schemes, short-term orientation and blatant conflicts of interest have encouraged speculative transactions. Dubious mortgage loans, based on the erroneous notion that the real estate prices in a continuous growth will cover the debts are a symptom of a much broader crisis in the financial and governance of business policies. The financial crisis demonstrated that the financial industry is unable to regulate itself as necessary to the existence of regulatory and supervisory frameworks for banks and the financial non-banking sector. The financial stability of the economy is a public good that should be insured in the institutionalized. Through the measures adopted by the NBR, the proper capitalization of the prevention prevalent stock boats, commitments to maintain an adequate level of capital for subsidiaries of the local market, the Romanian financial system operated in the corresponding parameters in 2011, under the conditions of economic dynamics is still modest. It should be recalled that, similar to previous periods the capitalization was provided solely by the shareholders and the public authorities were not involved in this process. Additional contributions of shareholders ' equity have been in 2011 of 280 mil euros in 2012, and totalled about 50 mil. euro. In 2009 the solvency ratio of the banking system was about 15% while maintaining at 14.7 percent and in 2012 under the EU threshold covered is 8 percent, while prudential minimum level targeted by the NBR is 10% from the beginning of the international financial crisis. Also, a process of reducing dependence on foreign financing of Romanian banks from 22.5% in 2010, from 22.3% in 2012 and 20.6% in 2012 and an improvement in their village structure, resources on the medium and long term in 2012, accounting for over 70% of the total external financing to banks.

The NATIONAL BANK monitors very closely national and international developments with regard to risk assessment, managing to maintain adequate liquidity in the system and the maintenance of appropriate levels of provisioning and solvency indicators.

Risks in relation to the stability of the financial system began to deteriorate in particular as regards: economic growth, which registered in 2011 a positive trend, 2.5%, forecasts showing a continuation of the increase in GDP in the period 2012-2013 at a rate higher than the EU average; fiscal consolidation, reducing the fiscal deficit in the year 2011 at 5.2% in GDP and to 1,12% in 2012, so that the targets under IMF programs and what's being achieved.

Development of the current account deficit which has experienced the following changes:

• export growth in 2011 was higher imports, falling by an annual increase of 20.6% from 17% in 2010;

• the share of imports in the export volume achieved by companies exporting net was 42% in 2012 from RMB 44.8% in 2010;

• the share of exporting products with high technological value decreased slightly from 12.3% in 2010, from 10.9% in 2012;

• the volume of exports to Germany increased by 24.6% in 2012.

Internal and external macroeconomic climate unfavourably influenced the negative results of financial and credit institutions, the Romanian banking system had by the end of 2011 a negative aggregate result. Although the market share of banks that have experienced a loss was positive by the end of 2011, 21 of the 41 credit institutions have reported positive financial results.

The banking sector reported in 2012 a loss of 192 million due to the depreciation of financial assets and the effect of the revaluation of securities related about credits. The profitability indicators of the banking system, i.e. the rate of financial profitability (ROE) and the rate of economic profitability (ROA) negative values were recorded, however, higher than those in 2011 (-2.6%-3.4%,-0.2%-0.3%). At the end of June 2012 ROE and ROA were negative-1%,-0.1%, respectively, as shown in the graphs below. The increase in net expenditures with the provision and the gradual deterioration of the effectiveness of operational activities is reflected by the upward dynamics of costVincome indicator, which have reduced the profit in the months of March and April, and in May with losses (-40,7 million lei in may 2012, -192 million lei in June 2012, as seen in Fig 1.(a)).

The market share of banks that have experienced losses doubled in 2011 from 21.9% to 44,6% , 21 of the 41 credit institutions were working in Romania by reporting the end of profit, especially the large institutions which have not been greatly affected by the cost of credit risk with low operational profitability decreases and increases.

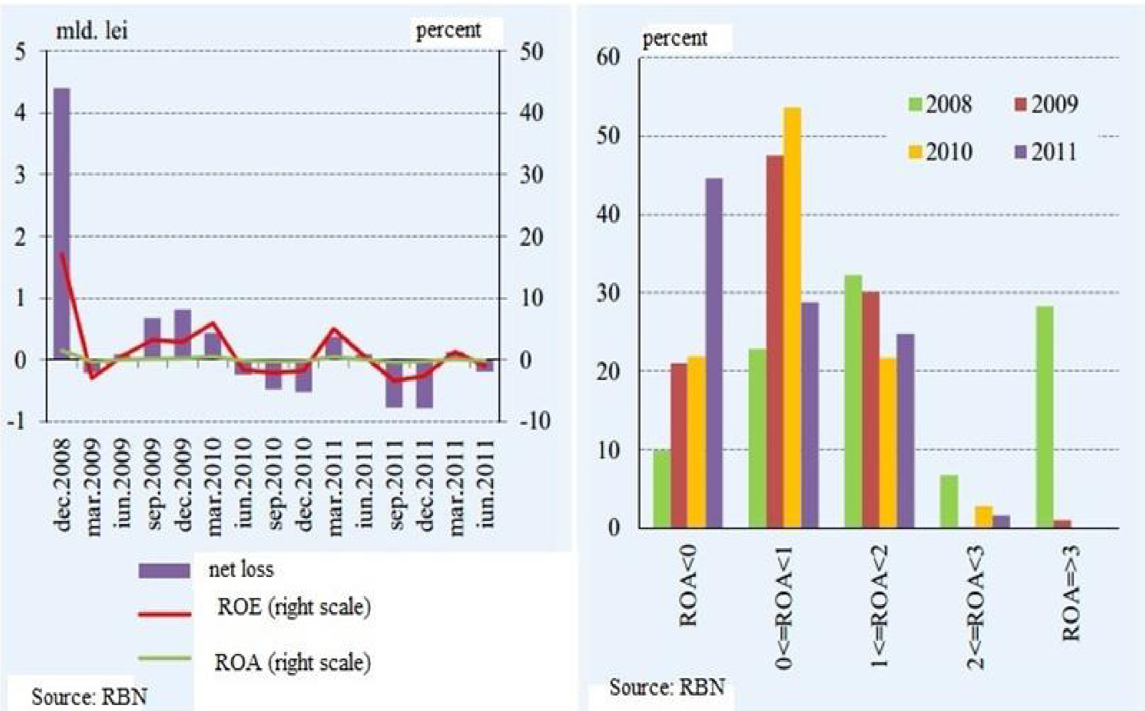

Fig 1. (a) Distribution of market share credit institutions according to ROA; (b) Evolution of the net financial result, the ROE and ROA.

Net interest income, which is the main element of operational incomes were negative in 2011 and in the early part of the year 2012. As a result of the increase in crediting activity in the second half of 2011, interest income recorded negative growth rates the cost of financing by credit institutions is declining in 2011, and in the early part of the year 2012 interest expenditure growth with positive developments as a result of the increase in volume of attracted resources on the local market and not as a result of the increase in interest rates as shown in Fig 2.(b). The annual growth rate of the actual operational profit was positive, but the slight decrease, as shown in figure Fig 2.(a). The cost\/income recorded in 2011 a tendency of reduction due to a negative dynamic operational income increased in relation to the costs of the same kind. Starting with the year 2012 to determine this indicator took account of changes in the methodology for the calculation of revenue, and operational expenditure, this indicator values are comparable to those recorded in previous years.

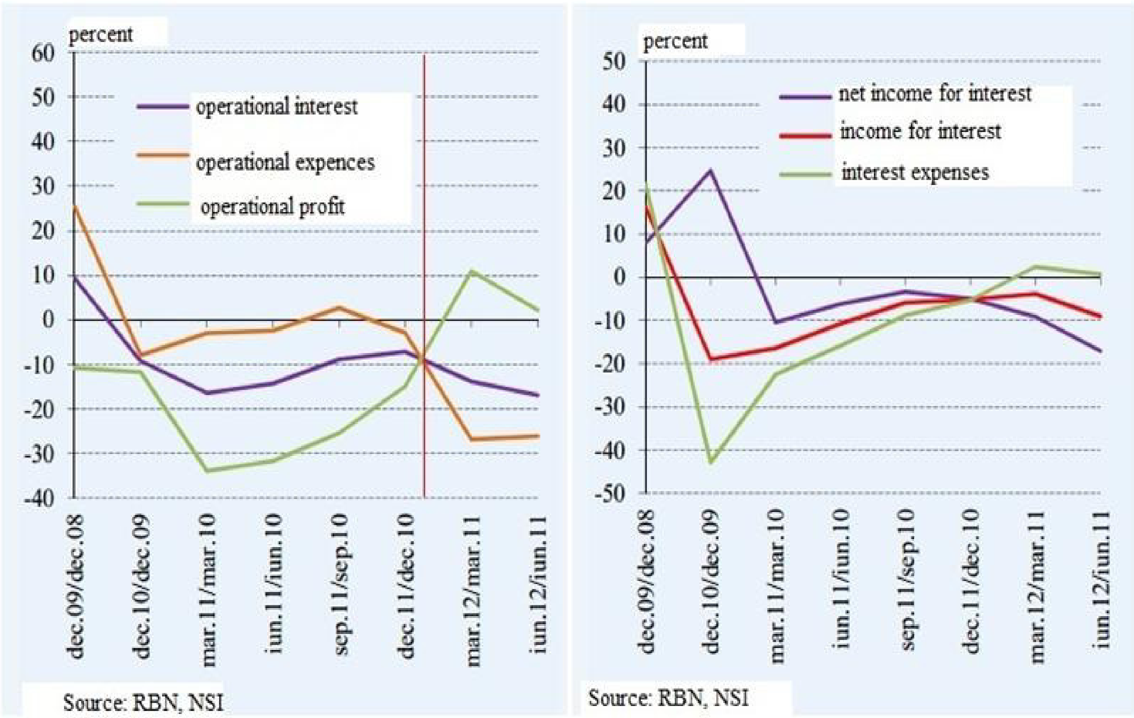

Fig 2. (a) The evolution of the real rhythms of cost and profit; (b) Evolution of the actual annual income rates, revenue and net income from operations interest expenditure

2. Non-banking financial institutions

As a result of unfavorable developments externally and non-banking financial system components have suffered:

• non-banking financial institutions (IFN) faces stagnation, deteriorating credit lending volume of credit portfolio and dependency of external financing;

• inter-bank money market is experiencing a reduction in interest rates as a result of liquidity flows carried out by BNR;

• the average daily volume of attracted deposits in lei in mid 2012 for about 4 billion lei, compared with the record in milliard 4,07 2011;

• the insurance industry has registered a negative trend, recording decreases in general insurance market that led to a decrease in the degree of financial intermediation for insurance industry;

• real estate and lending mortgage security is vulnerable as a result of the decrease in loan portfolio quality, guaranteed mortgages granted to citizens and businesses.

The non-banking financial institutions (IFN) have seen a stabilization of activity in the year 2012, the loan balance is 22.8 billion lei, while the total assets of 33 billion lei. The market share of IFN calculated as share credit IFN in total private credit granted by the Romanian financial system fell from 10.1% in 2011 to 9.1% in 2012, as we can see from Fig. 3.(a). Evolution of the macro-economic framework in conjunction with, the credit granted to the private sector had the same tendency in the case of IFN and for credit institutions; the effects of the difficult economic context were felt even more strongly by IFN, as shown in Fig. 3(b).

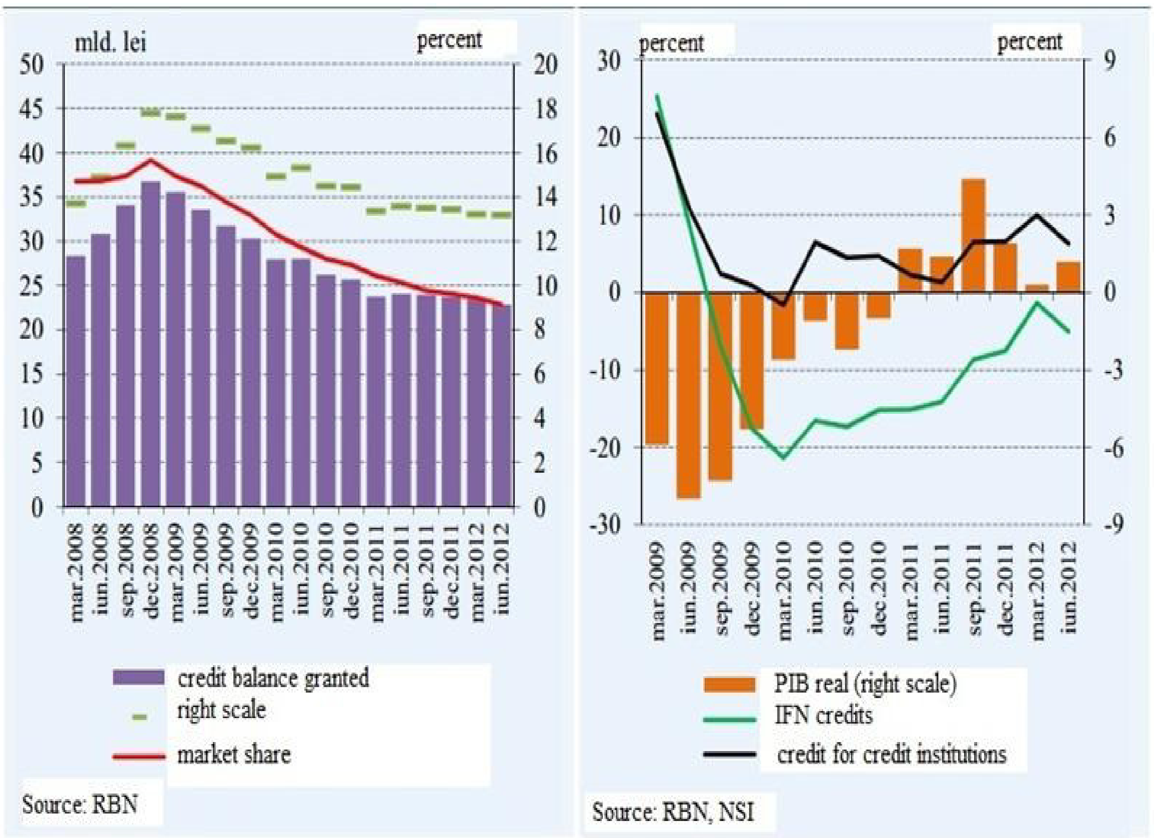

Fig 3.(a) The activity of the 1st sector graphic IFN; (b) Evolution of GDP and credit (annual variations)

IFN activity is concentrated at the level of the entities supervised by the NATIONAL BANK, prudential and structural evolution of credit portfolio of IFN were observed the following:

• maintaining the dominant position of non-financial companies ' credit granted, 75% of the outstanding balance of loans;

• extend maturity loan portfolio;

• reducing the share of financial leasing, reorienting the work to other forms, lending it a greater contraction of the dynamics displayed by the european level, so that the share of the balance has been reduced from 3.6% of GDP in 2010, up from 2.9 percent of GDP in 2011, as shown in Fig. 4(a).

• increasing the proportion of credit denominated in lei, at both the population and loans to non-financial companies, in line with the policy of the NATIONAL BANK of appropriate management of risks including by encouraging local currency financing, as shown in Fig. 4(b).

Fig 4.(a) Leasing market share in GDP in the EU countries (balance at end of year); (b) structure of the credit granted by the IFN based on the currency of denomination

Deterioration of the quality of the credit portfolio represents the main vulnerability of the IFN, during 2011-2012 with an increase in credit risks as a result of the increase in loan portfolio in arrears with its affected, under the conditions of a total balance of the credits almost constantly. In June the rate of bad loans at the level of IFN reached 19.7% higher value being registered by the banking sector which was 16,76%, as shown in Fig. 5.

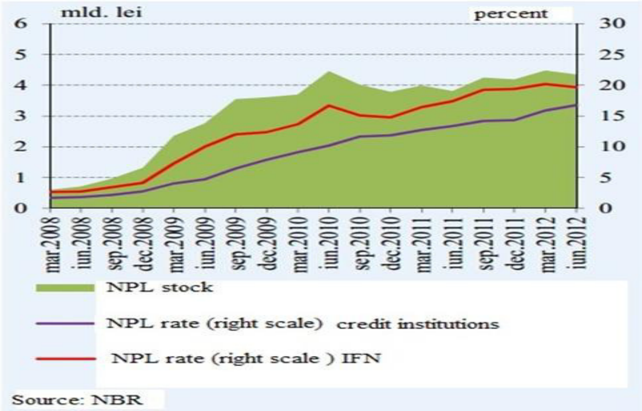

Fig. 5. Chart the evolution of loans

Although the activity is concentrated mainly IFN of the affiliated entities of the credit institutions and the financial resources are attracted to foreign markets, the credit institution or financial institution to the parent as well as from other institutions outside the group, they have balance sheets and distinct capital facilities. The share of the Romanian capital is 56% of the total registered capital of IFN distribution showing marginal role of the liabilities of the finance sector by domestic credit institutions, i.e. 15% of total loans in 2012, rising only 2% from June 2011, as we can see from Fig. 6.

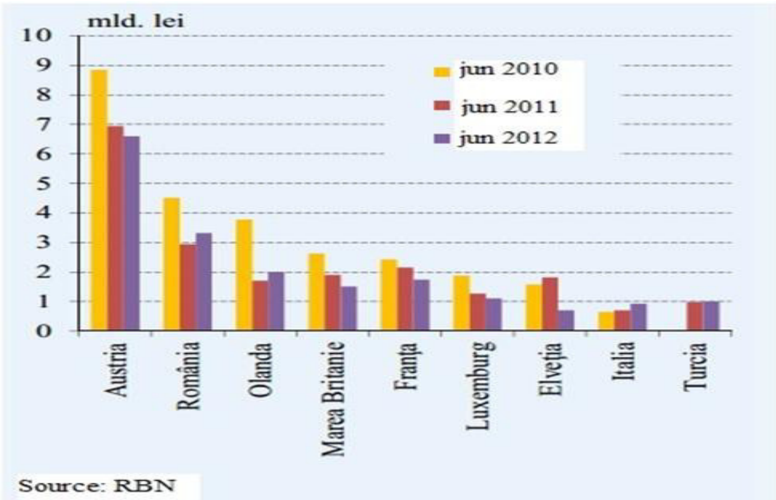

Fig. 6. Developments in graphically drawn loans depending on the country of origin

Increased dependence on both credit institutions and IFN finance, offering an external vulnerability.of the Romanian financial system in the event of external liquidity shocks, with effects on the accessibility and cost of financing Romanian economy. Thus in the context in which the financial markets are integrating and globalizing at an accelerated pace, there are new possibilities for placement of the resources available as well as new opportunities for accessing financing markets. Among the reasons that underlie these mutations is a pressure exerted on a global scale by the competition brought about by the internationalization of financial markets and financial flows, mobility within a new financial world architecture.

Developing economies in transition have appealed or consistent to the capital markets to fund balances of payments, or for acceleration of productive capacity development. This involved and involves a process of reform of the financial system, adapting to the requirements of investors, trading standards both as internal powers and in line with the requirements of integration in a regional context or broader international. The Romanian capital market is in a process of evolution but remains at the stage of searches and consolidations, following firescritmurile's own internal economy aspiring to a status that the present level of operations it may not confer.

As the Romanian economy has surpassed the stage of an emerging market economy, and came all over the status of functional market economy, the primary function of our capital market is speedy mobilization and low cost of capital for large-scale projects. In this new stage, the stock market should play a major role in financing the Romanian economy through domestic savings mobilization and attraction on a sustainable basis to foreign capital. With the attainment of this objective can appreciate that the stock market would enter the stage or maturity.

The most important challenges related to the development of domestic financial and economic concerns:

- maintain a proper pace of real convergence, in parallel to the continuation of the process of reducing external and fiscal imbalances;
- the resumption of efforts to have a basis for sustainable economic growth and attain the objectives assumed in Europe 2020 program;
- provision of additional reserves and improve payment discipline in the public sector, which is an essential element in maintaining macroeconomic and financial stability;
- strengthening structural changes favourable to the process of financing the real economy in relation to the loan market;
- clearer orientation towards the financing of non-financial companies and improve the structure of credit flows to finance firms in the sectors of commercial property.

Prudential filters require adjusting the values of capital so that amounts recognized in prudential's own funds to meet the criteria of performance, evaluation of the unconditional capacity of credible and the unconditional capacity of covering losses

References

La finance folle ne doit pas nous gouverner" Le Monde, 22 mai 2008

Financial - Economic Situation BNR- Press Release 24.08.2011, TE Nr 35/2011, pag. 5

Daniel Dăianu (2009) - Where capitalism? Economic crisis, walking ideas, institutions, Ed. Polirom, Bucureşti;

T.E.nr.35/2011-European Strategy. 2020- Main Objetives, pg.78

http://www.europe2020.org

Daniel Dăianu, Vrânceanu Radu, , (2003), Opening the Capital Account in Transition Economies: How much and how fast?, Acta Oeconomica, Issue 53, no 3;

Daniel Dăianu, Radu Vrânceanu, (2000) Romania and European Union. Inflation, balance of payments, economic growth,Editura Polirom

Ispas Roxana, Simion Dalia, Pătruţescu Monica, (2011), The Impact of the Economic Crisis on the Public Debt of Romania, Analele Universitatii Ovidius, Seria: Stiinte economice, Vol. XI, nr. 1/2011

Krungman Paul, (1999), The return of Depression Economics, Norton, New York;

Lamfalussy Alexandre, (2000) Financial Crises in Emerging Markets, Yale University Press, New Haven, Londra;

Simion D., (2009), Management portfolio, Editura Universitaria, Craiova ;

Summers L., (2000) International Financial Crises: Causes, Prevention and Cures" , American Economic Review, AEA Papers and Proceedings, 90 (2) , pp 1-16;

Tobă Daniel, Simion Dalia, Gruescu Ramona, (2009), Budgetary and socio-economical influence of the implementation of public politics, Revista de Management şi Inginerie Economică, volumul 8, nr.4(34),;

Ziarul financiar, 2008-2010
European Voice, The calculation Debate Revisited, 13 iunie 2008